
**Assistant Inspector General for Investigations
Defense Criminal Investigative Service
Annual Report for Calendar Year 2001**



**Office of the Inspector General
of the Department of Defense**

***20
Years of Service***

Report Documentation Page		
Report Date 2001	Report Type N/A	Dates Covered (from... to) -
Title and Subtitle Assistant Inspector General for Investigations Defense Criminal Investigative Service Annual Report for Calendar Year 2001	Contract Number	
	Grant Number	
	Program Element Number	
Author(s)	Project Number	
	Task Number	
	Work Unit Number	
Performing Organization Name(s) and Address(es) OAIG/AUD(ATTN: AFTS Audit Suggestions) inspector General Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884	Performing Organization Report Number	
Sponsoring/Monitoring Agency Name(s) and Address(es)	Sponsor/Monitor's Acronym(s)	
	Sponsor/Monitor's Report Number(s)	
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes The original document contains color images.		
Abstract		
Subject Terms		
Report Classification unclassified	Classification of this page unclassified	
Classification of Abstract unclassified	Limitation of Abstract UU	
Number of Pages 31		

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FOREWORD

It is a privilege to report the accomplishments of the Defense Criminal Investigative Service (DCIS) during 2001. The report highlights significant activity in our high priority areas and provides examples of the outstanding work conducted by the dedicated men and women of DCIS.

Highlights of the year 2001 included both celebration and tragedy. In August 2001, DCIS celebrated its 20th Anniversary. Many current and former employees, as well as professional colleagues, clients and customers, attended the reception held in honor of DCIS' proud history of investigative excellence.

Immediately after the terrorist attacks of September 11, 2001, DCIS focused on supporting investigation of the tragic events. The employees of DCIS tirelessly conducted interviews and evidence recovery, supported the FBI hotline, and provided critical incident response. In the months following the terrorist attacks, DCIS joined other law enforcement agencies participating in terrorism task forces across the country.

The men and women of the DCIS are committed to defending America's warfighters by investigating fraud, which hampers the readiness of our Armed Forces. We look forward to continuing our fight against those who commit fraud that undermines the programs and operations of the Department of Defense.



Carol L. Levy

Director

Defense Criminal Investigative Service

DCIS 20th ANNIVERSARY



THE ESTABLISHMENT OF DCIS

In 2001, the DCIS celebrated 20 years of proud service “Protecting America’s Warfighters.” The DCIS was established on October 1, 1981, by Secretary of Defense Casper Weinberger to investigate criminal or fraudulent activities involving Department of Defense (DoD) components, contractors, military or civilian personnel. DCIS initially reported to the Assistant to the Secretary of Defense (Review and Oversight). In 1982, Congress amended the Inspector General Act to establish the Office of the Inspector General (OIG), DoD, and DCIS became its investigative component.

The Special Investigations Unit of the Defense Investigative Service¹ was transferred to DCIS providing its “First Twelve” employees. The “First Twelve”



consisted of Hubert “John” Barber, Carol Ann Brown, James Childs, William Dupree, Marty Eid, Edward Gaffney, Sharon Gaylord, David Hall, Peter Hopkinson, George McLaughlin, Jack Meizen and Richard Smith. Special Agent (SA) Edward Gaffney is the only one of the original 12 agents to have completed 20 years of service with DCIS.

Five of the “First Twelve” (pictured above) attended an August 2001 anniversary celebration in Arlington, VA. From left to right, they are Mr. William Dupree, Mr. James Childs, SA Carol Ann Brown, SA Edward Gaffney and Mr. Richard Smith. Mr. Dupree served as the Acting Director during the infancy of DCIS until the selection of Mr. Brian Bruh as the first Director of DCIS. Many others joined the “First Twelve” as DCIS began to take shape and expand as a law enforcement agency.

¹ The Defense Investigative Service is currently known as the Defense Security Service.

DCIS DIRECTORS

Over its 20-year history, six individuals have held the key leadership role of Director, DCIS. The Director also serves as the Assistant Inspector General for Investigations, OIG DoD. The former and current Directors are depicted in the following photographs.



Brian Bruh
December 1981 – December 1984



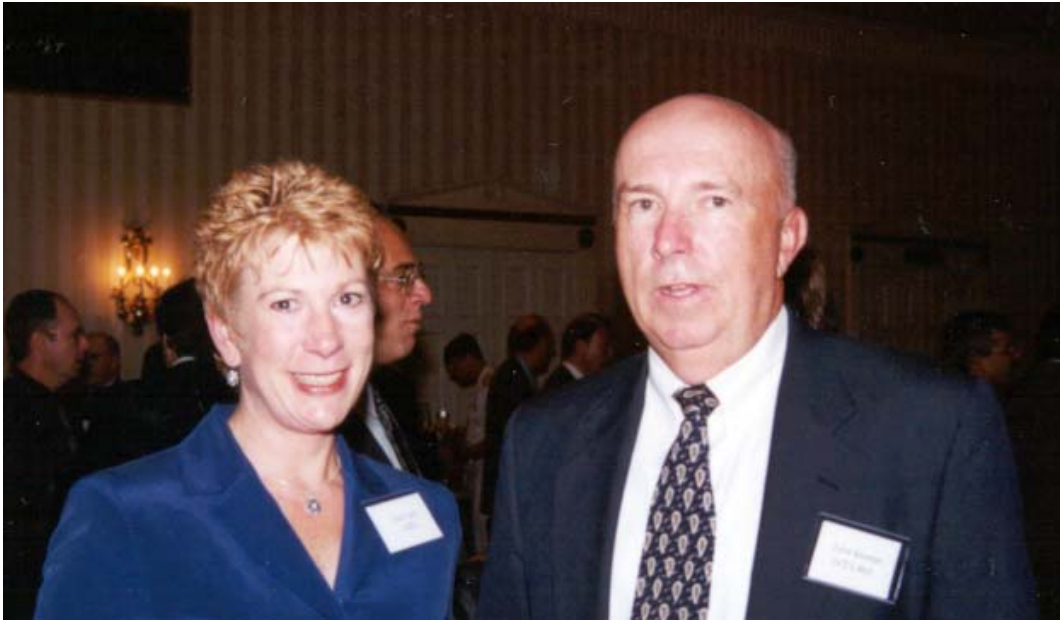
Bertrand "Bert" Truxell
December 1984 – April 1988



Donald Mancuso
April 1988 – March 1997



William G. Dupree
March 1997 – July 1998



John F. Keenan, pictured with current Director Levy, served as Director of DCIS from July 1998 until July 2000

MISSION AND JURISDICTION

The DCIS mission and jurisdiction is derived from Public Law 95-452; Title 10, Section 1585a (The Inspector General of the Department of Defense); and DoD Directive 5106.1, which assigns duties and responsibilities to the IG to conduct, supervise, monitor and initiate investigations relating to fraud within the DoD and other investigations deemed appropriate by the OIG. DoD Instruction 5505.2 (Criminal Investigations of Fraud Offenses) provides guidance for determining DoD criminal investigative jurisdiction for fraud offenses among DCIS and the Military Criminal Investigative Organizations.

ORGANIZATION

The DCIS has a staff of approximately 321 special agents, 40 non-agents and 49 clerical personnel. DCIS Headquarters is located in Arlington, VA, with six field offices (FOs) covering the continental U.S., Hawaii and Germany. The FOs have subordinate resident agencies and posts of duty that are located in close proximity to DoD facilities or where DoD contracting occurs. The Headquarters components consist of the Investigative Operations Directorate, and the Program Review Directorate, which includes the DoD Hotline.

AREAS OF INVESTIGATION

DCIS is one of four Defense Criminal Investigative Organizations (DCIOs) within the DoD. The investigations conducted by DCIS primarily involve contract and procurement fraud, antitrust violations, bribery, corruption, large-scale thefts of Government property, health care fraud and computer crimes. The other three DCIOs, the U.S. Army Criminal Investigation Command (USACIDC), the Naval Criminal Investigative Service (NCIS) and the Air Force Office of Special Investigations (AFOSI), also investigate fraud and computer crimes. The AFOSI and NCIS additionally conduct counterintelligence investigations and operations. This section summarizes some of the significant fraud cases, convictions and recoveries of the past fiscal year. It is important to note some cases were conducted jointly with other agencies, both DoD and non-DoD.

PRODUCT SUBSTITUTION

The introduction of counterfeit material and other forms of unauthorized product substitution into the procurement system has historically been and continues to be DCIS' highest priority for deterrence, investigation and prosecution. Product substitution investigations have always comprised a major part of the DCIS case inventory. An area of increased emphasis is readiness enhancement through vigorous detection and investigation of defective or substituted products that involve either safety of flight issues or have a critical application to military readiness.

- On April 10, 2001, Kaydon Corporation, Clearwater, FL, pled guilty to a two-count criminal information in U.S. District Court, Bridgeport, FL. Kaydon pled guilty to two counts of submitting false statements to the Government in connection with inspection certifications associated with the manufacture of helicopter parts. The investigation was initiated pursuant to the 1996 crash of a CH-53E Superstallion helicopter at the Sikorsky Aircraft Company, Stratford, CT, that resulted in the deaths of the two pilots and two crewmen. The investigation revealed that certain procedures required for the inspection of the duplex swashplate bearing assembly



had not been performed by the subcontractor, Kaydon Corporation, Bearing Division, Muskegon, MI. The duplex bearing is a component of the swashplate assembly, which is a vital link in the flight control system of the helicopter. Kaydon was required to submit signed certifications to Sikorsky, which contained actual handwritten values of specific

bearing dimensions and features. Investigation revealed Kaydon employees made false entries on the certifications, signed them, and submitted them as a requirement for payment. The CH-53E Superstallion helicopter is flown by the U.S. Marine Corps as a heavy-lift, multi-purpose aircraft. The mishap aircraft was destined to join the presidential fleet in a support function. At Kaydon's request, sentencing was also rendered concurrent with the guilty plea. Kaydon was sentenced to criminal fines and penalties of \$1 million. Kaydon also paid an additional \$6.5 million in civil restitution. DCIS, the Federal Bureau of Investigation (FBI) and the NCIS conducted the investigation, with substantial assistance from engineering personnel of the Defense Contract Management Agency.

- On May 14, 2001, a two count criminal information was filed in U.S. District Court, Wichita, KS, charging L &T Seals, Inc., Galena, KS, and its president, Eles L. Brandenburg, each with one count of mail fraud. The charges stemmed from allegations that nonconforming o-rings were delivered for military use and were falsely represented to be in compliance with DoD requirements. According to the charges, Brandenburg and L &T Seals, Inc., received purchase orders from the DoD to supply various types and sizes of o-rings and seals. The o-rings and seals were contractually required to meet military specifications that were set forth in each purchase order. The o-rings and seals supplied did not meet the requirements. DCIS, the U.S. Postal Inspection Service and the AFOSI conducted this investigation jointly.

FINANCIAL CRIMES

The investigation of financial crimes focuses on cases where financial gain is the sole motivation. These cases are usually accomplished by defrauding or abusing pay systems, such as the Defense Finance and Accounting Service. The following is an example of a significant financial fraud cases occurring during this annual reporting period.

- On June 29, 2001, Astropower, Incorporated, Newark, DE, entered into a settlement agreement with the U.S. Attorney's Office for the District of Delaware. Under the conditions of this settlement, Astropower agreed to pay \$3.648 million in damages. On October 20, 2000, a civil complaint was filed against Astropower under the False Claims Act. The suit alleged that, between 1991 and 1995, Astropower improperly manipulated overhead accounting rates, charged the Government for commercial ventures, and then falsely certified that such charges were proper. Astropower historically performed research in the field of photovoltaics (solar power) under contracts with various components of the DoD and the Department of Energy. Affected DoD components include the U.S. Navy, Office of Naval Research, the U.S. Air Force Research Laboratory, Wright-Patterson Air Force Base, and the U.S. Army Space and Missile Defense Command. DCIS and the NCIS conducted the investigation jointly. The investigation was supported by the Defense Contract Audit Agency (DCAA) and the Department of Energy OIG.

CONTRACTOR/SUBCONTRACTOR KICKBACKS AND BRIBERY

The number of subcontractor kickback investigations in the DCIS inventory was significantly impacted by passage of the Anti-Kickback Act of 1986. The utilization of informants and undercover operations has been particularly successful in these cases and has uncovered culpable DoD and contractor employees.

- On February 16, 2001, Steven R. Lemons, former project manager, U.S. Army Corps of Engineers, Kansas City District, was sentenced in Federal District Court, Denver, CO, to 41 months incarceration, 36 months of supervised probation, and a \$200 special assessment fee. On October 24, 2000, Lemons pled guilty to single counts contained in two separate indictments. Both indictments charged Lemons with soliciting \$300,000 bribes from two prospective DoD contractors. The companies were vying for contracts valued at up to \$150 million. Lemons offered to illegally help the prospective Government contractors win one of three contracts for long-term maintenance and monitoring of hazardous waste at Formerly Used Defense Sites located in the Midwest. DCIS and the FBI conducted this investigation jointly.
- On January 17, 2001, Roy A. Johnson, president, Central Florida Collision Centers, Inc. (CFCC), Orlando, FL, pled guilty in U.S. District Court, Orlando, FL, to two one-count informations charging him and his company, CFCC, with violating the Anti-Kickback Act. On April 17, 2001, CFCC and Johnson were sentenced in the Middle District of Florida, Orlando, FL. Johnson was sentenced to 24 months probation, 100 hours of community service, a \$100 special assessment fee and was ordered to pay restitution in the amount of \$7,000 to the National Aeronautics and Space Administration (NASA). CFCC was sentenced to pay a \$400 special assessment fee. The sentences relate to convictions of CFCC and Johnson for knowingly paying kickbacks to Martin Francis, a consultant, and Michael McCusker, a procurement manager for Lockheed Martin Services (LMS) Division, Cape Canaveral, FL, a Government contractor, for the purpose of being awarded purchase orders by LMS.

On October 3, 2001, Richard W. Green, a former supervisor with LMS, was sentenced to 1-year probation, a \$2,500 fine and a \$50 special assessment fee, as a result of his guilty plea to a one-count information charging him with willfully filing a false 1994 income tax return. The conviction and sentencing of Green is the result of an investigation into kickbacks allegedly solicited and received by several employees of LMS from companies wishing to do business with LMS. Green failed to report as income on his tax return \$9,654.34 in cash he received from vendors in return for business they received from LMS. This investigation was conducted by DCIS, the NASA OIG, the AFOSI and the FBI.

- On December 6, 2001, TAP Pharmaceutical Products, Inc. (TAP), was sentenced in U.S. District Court, Boston, MA. TAP was ordered to pay a criminal fine of \$290 million and sentenced to 5 years probation. TAP pled guilty on October 16, 2001, to charges related to defrauding Federal health care programs, such as TRICARE and

Medicare. The court found that TAP had caused losses to TRICARE, Medicare and other Federal health care programs amounting to \$145 million. TAP entered its plea of guilty as part of an overall global settlement with the U.S. The settlement requires TAP to pay \$875 million to resolve criminal charges and civil liabilities in connection with its fraudulent drug pricing and marketing conduct with regard to Lupron, a drug sold by TAP primarily for treatment of advanced prostate cancer. By virtue of an interest provision in the Civil Settlement Agreement, which required TAP to begin paying interest on the civil settlement commencing on September 4, 2001, the total amount that TAP will pay will be in excess of \$884 million.

According to the facts presented at the earlier plea hearing, TAP is a joint venture owned by Abbott Laboratories and Takeda Chemical Industries, Ltd., with offices in Illinois, more than 2,000 employees and sales of more than \$3 billion. Beginning in the early 1990s, and in order to induce physicians to prescribe Lupron to patients suffering from advanced stage prostate cancer, TAP began to give doctors free samples as a form of volume discount. Tap representatives fully intended and expected the doctors receiving the free drug would prescribe the drug to their patients and, thereafter, bill the patients and their insurers for that product. In the 1990s, a 1-month dose of Lupron ranged in price from just below \$400 to almost \$600. In 1993, a top doctor with the American Urology Association told TAP to stop providing free samples to doctors because doing so was placing doctors in jeopardy of being prosecuted for taking and billing for free samples. Notwithstanding that warning, TAP continued to give its sales representatives samples and they continued to provide samples to urologists knowing and expecting that those doctors would prescribe the samples and thereafter bill them to their patients. During some years in the 1990s, TAP annually gave every one of its Lupron sales representatives samples worth approximately \$40,000 for provision to urologists.

Four doctors (urologists) have pled guilty in connection with this investigation. Dr. Rodney Mannion, LaPorte and Michigan City, IN, pled guilty to health care fraud on April 25, 2000. Dr. Jacob Zamstein, Bloomfield, CT, pled guilty to health care fraud on December 7, 2000. Dr. Joseph Spinella, Bristol, CT, pled guilty to health care fraud on March 29, 2001. Dr. Joel Olstein, Lewiston, ME, pled guilty to health care fraud on July 18, 2001.

The investigation commenced in 1997, after law enforcement authorities were contacted by Dr. Joel Gerstein, a urologist employed by Tufts Associated Health Maintenance Organization, located in Waltham, MA. Dr. Gerstein reported that he had been offered an educational grant if he would reverse a decision he had made on behalf of Tufts that it would only cover the less expensive drug Zoladex. The investigation was also triggered by a civil False Claims Act suit filed in 1996 by Douglas Durand, after he had quit his employment at TAP as vice president of sales, because of his concerns about the illegal marketing conduct of some of TAP's employees. The investigation was conducted by the DCIS, the FBI, the Food and Drug Administration Office of Criminal Investigations and the Department of Health and Human Services (HHS) OIG.

HEALTH CARE FRAUD

DCIS has the responsibility for national health care fraud investigations involving programs administered by the Assistant Secretary of Defense (Health Affairs). The programs provide health care to active duty and retired military personnel and their dependents, and survivors of military personnel through a health insurance program known as TRICARE. Our investigations have found an increase in fraud in the delivery of health care services, including those provided by hospitals, clinics and private practitioners. The following are examples of some of the more significant health care fraud cases.

- On January 25, 2001, Columbia Homecare Group, Inc., and Columbia Management Companies, Inc., subsidiaries of Columbia/HCA, Nashville, TN, pled guilty under Rule 20 of the Federal Rules of Criminal Procedure in U.S. District Court, Tampa, FL, to separate informations filed in the Middle District of Florida, the Southern District of Florida, the Middle District of Tennessee and the Northern District of Georgia. The pleas were the result of a U.S. Department of Justice (DOJ) plea agreement with Columbia/HCA and the U.S. Attorneys' Offices with regards to conspiracy, paying and receiving kickbacks and false statements with respect to U.S. Government medical cost reimbursement programs. According to the agreement with the DOJ, Columbia Homecare Group, Inc., and Columbia Management Companies, Inc., accepted conviction and sentencing at the time the pleas were entered. Coordination of the Rule 20 plea agreement and sentencing in the Middle District of Florida was the culmination of an agreement with the DOJ, the U.S. Attorneys' Offices, and Columbia/HCA to have a corporate officer appear and plead guilty to the separate offenses. The informations charged that the two defendant corporations knowingly assisted Columbia/HCA in the preparation and filing of false cost reports with the U.S. Government with respect to home health care and fraudulent billing for upcoding pneumonia treatment.

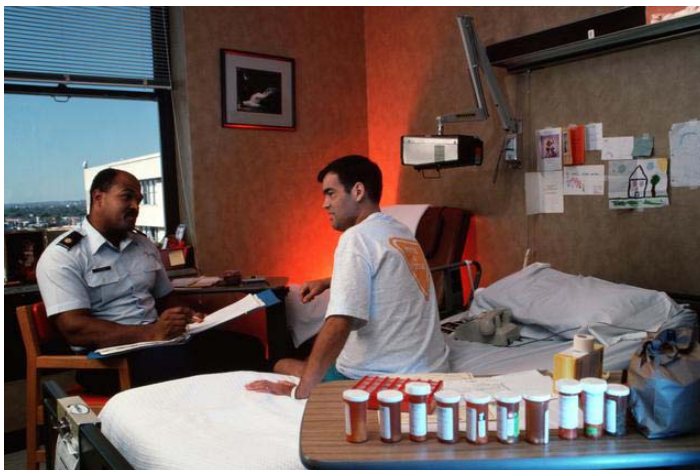
Columbia Homecare Group, Inc., was sentenced to pay criminal fines of \$8,400,000 for the Middle District of Florida; \$3,360,000 for the Southern District of Florida; and \$3,360,000 for the Northern District of Georgia for a total of \$15,120,000 for convictions related to the criminal charges for fraudulent home health care expenses. Columbia Management Companies, Inc., was sentenced to pay criminal fines totaling \$22,600,000 for convictions related to the criminal charges filed in the Middle District of Florida for filing false hospital cost reports and further sentenced to pay fines totaling \$27,500,000 for the criminal charges filed in the Middle District of Tennessee for filing fraudulent claims for upcoding.



The charges against Columbia Homecare Group, Inc., and Columbia Management Companies, Inc., stem from whistleblower lawsuits (qui tams) filed against the Nation's largest hospital chain, Columbia/HCA. The investigation disclosed Columbia Homecare Group, Inc., bought several Florida and Georgia based home health agencies at artificially low prices then paid, other defendants previously sentenced, inflated fees to manage the home health care agencies. The inflated costs were then reimbursed to Columbia/HCA through U.S. Government medical care reimbursement programs, all with the knowledge and assistance from officials of the corporation. Additionally, Columbia Management Companies, Inc., prepared and filed false cost reports for several Columbia/HCA owned hospitals and filed false claims by upcoding bills to the Government for pneumonia treatment. Columbia Homecare Group, Inc., and Columbia Management Companies, Inc., agreed to pay \$745 million to the U.S. Government to settle the civil issues. This investigation was conducted by DCIS, the DCAA Investigative Support Division, the HHS OIG and the FBI.

- On March 15, 2001, in U.S. District Court for the Northern District of Texas, Steven Carl Bradley and Robert Todd Willis, owners and operators of a telemarketing company called Mid-Cities Health Services, Mansfield and Arlington, TX, were sentenced. Bradley was sentenced to 51 months incarceration, 3 years supervised release, and ordered to pay \$304,192.44 in restitution, along with a special assessment of \$350. Willis was sentenced to 24 months incarceration, 3 years supervised release, and ordered to pay \$304,192.44 in restitution, along with a special assessment of \$50. The restitution was assessed jointly and severally against Bradley and Willis.

On August 16, 2000, a Federal grand jury returned a 10-count indictment charging Bradley and Willis with mail fraud and conspiracy to commit mail fraud. The indictment alleged Mid-Cities filed claims with private insurance companies and TRICARE for durable medical equipment that was not delivered or was inferior to that claimed. On November 17, 2000, Willis entered a plea of guilty to one count of mail fraud, and agreed to testify for the Government at trial. On December 5, 2000, a jury convicted Bradley of six counts of mail fraud and one count of conspiracy to commit mail fraud. The investigation was conducted by DCIS and the U.S. Postal Inspection Service.



- On March 16, 2001, Vencor, Incorporated (Vencor), and Ventas, Incorporated (Ventas), both in Louisville, KY, entered into a settlement agreement with the U.S. DOJ, Washington, D.C. Vencor operates and manages long-term intensive care hospitals, nursing centers, retail and institutional pharmacy outlets, retirement housing

communities and provides medical services to thousands of nursing homes. In 1998, Vencor was split into two corporations: Vencor that operates and manages health care facilities; and Ventas, a real estate investment trust that owns and manages all of the real estate assets. The settlement agreement requires Vencor and Ventas to pay a total of \$219.5 million to the U.S. Government in order to settle multiple lawsuits. All of the suits were filed under the qui tam provisions of the False Claims Act. The whistleblowers alleged that Vencor, Ventas and/or their subsidiaries submitted false and fraudulent claims to Medicare and Medicaid for the provision of health care services. The agreement also calls for Vencor and Ventas to pay the whistleblowers' attorneys' fees amounting to \$495,897.

This settlement resolves allegations that were contained in 10 separately filed qui tam lawsuits. Those allegations are summarized as follows:

A Vencor subsidiary submitted inflated bills for the transportation of mobile x-ray machines and portages fees, and over billed for various other services.

A Vencor subsidiary submitted bills for the administration of unit dose drugs when bulk drugs were actually administered; improperly claimed special dispensing fees; recouped unused drugs from skilled nursing facilities without providing credits; and paid kickbacks, in the form of free equipment, to facilities in order to secure and maintain business.

A Vencor subsidiary submitted bills for respiratory therapy related supplies that were not medically necessary; billed for services not rendered; exaggerated the time required to provide services; and/or exaggerated the productivity of its therapists.

A Vencor subsidiary paid kickbacks to maintain and secure laboratory testing referrals; submitted bills that included nonroutine tests that were neither medically necessary nor ordered by the physician; and were unjustly enriched through the abuse of terminally ill patients.

Vencor falsified patient bills through the following methods: (1) billing for nonmedically necessary inpatient care; (2) billing for intensive and critical care that was not actually administered; (3) falsifying patient charts; (4) charging for pharmacy services not rendered by pharmacists as required; and (5) improperly billing for sales calls made by nurses.

Vencor submitted false claims through (1) fabricating diagnosis codes; (2) billing for unnecessary services; (3) changing diagnoses in order to qualify for reimbursement; (4) billing for services or products not received; and (5) billing for oxygen use regardless of whether the oxygen was actually administered.

Vencor included in reimbursable cost centers of its hospital cost reports, costs and charges that should have been placed in nonreimbursable cost centers, which skewed the cost to charge ratio and resulted in greater reimbursement.

Vencor submitted bills for (1) unnecessary services and services not performed; (2) excess collections and the collection of bad debts; (3) inflated and nonexistent laboratory charges; (4) patients who had been transferred to hospitals that were reimbursed at a higher level, solely to achieve higher reimbursement and when not medically necessary; and (5) improperly allocated hospital insurance expenses.

A Vencor subsidiary systematically up-charged for injectable drugs and intravenous solutions. Vencare and Vencor Hospice obtained inflated reimbursement for admitting and treating hospice patients who were not hospice appropriate.

This investigation was conducted by DCIS and the HHS OIG.

- On July 6, 2001, U.S. District Court, Paducah, KY, approved and unsealed a \$7 million settlement agreement between American Homepatient, Inc., Brentwood, TN, and the U.S. DOJ, Washington, D.C. The settlement resolves allegations made in a qui tam lawsuit that American Homepatient submitted false claims for the supply of durable medical equipment to TRICARE, Medicare and Medicaid during the period January 1, 1995 through December 31, 1998. Under the terms of the settlement agreement, Kenneth E. Hollis, a former billing manager for the company who initiated the qui tam suit, will receive more than \$1.1 million as his share of the settlement proceeds.

American Homepatient operates a nationwide chain of retail stores that provides medical supplies and durable medical equipment to the public, including patients insured under the various Federal health care programs. In 1997, Hollis filed a qui tam civil false claims lawsuit, under seal, alleging that American Homepatient defrauded the Federal health care insurance programs. This investigation was conducted by DCIS and the HHS OIG.

ENVIRONMENTAL CRIMES PROGRAM

The Environmental Protection Agency (EPA) has primary jurisdiction for matters involving hazardous waste spills or other hazardous situations and environmental crimes. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, and the Superfund Amendments and Reauthorization Act of 1986 gave DoD the authority for certain cleanup activities at former DoD sites in the U.S. and its territories. DCIS is responsible for investigating fraud in the DoD environmental programs, including contract fraud with regard to the removal, transport and disposal of hazardous material from DoD installations. The following are examples of some of the more significant cases.

- On August 24, 2001, six of the nine defendants charged as a result of the investigation of Construction Personnel, Inc. (CPI), were sentenced in U.S. District Court, Chattanooga, TN, on charges of conspiracy, money laundering, wire fraud, false claims and violating immigration laws. Roy Weaver, president, CPI, based in Chattanooga, TN,

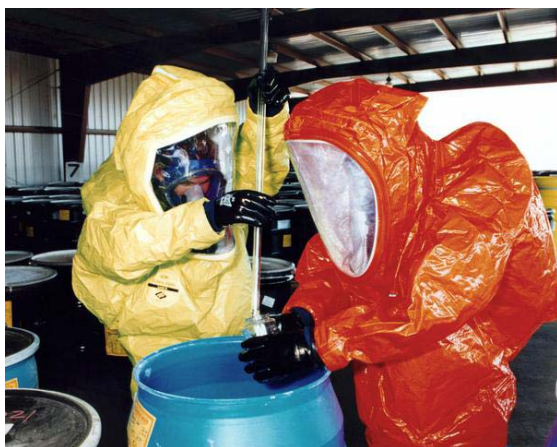
was sentenced to 36 months probation, held jointly responsible for \$328,286 in restitution, a \$7,500 fine and a \$300 special assessment fee. Ronald Goodwin, vice president, CPI, was sentenced to 12 months and 1 day in prison, held jointly responsible for the \$328,286 in restitution, 24 months probation, 150 hours of community service and a \$300 special assessment fee. Tina Voiles, a payroll clerk with CPI in Chattanooga, was sentenced to 12 months probation and a \$500 fine. CPI was charged in Chattanooga, TN, Baton Rouge, LA, and Denver, CO. CPI was sentenced to 36 months probation, restitution of \$328,286 and a \$5,250 special assessment fee. Maria Shumaker, who managed the CPI office in Baton Rouge, LA, was sentenced to 24 months probation, a \$1,000 fine and assessed \$100.

The investigation found foreign nationals, who entered the U.S. illegally, were employed by asbestos abatement companies. These laborers were used to remove the hazardous material from office buildings; schools; airports; and other structures, including housing, on military installations. The investigation disclosed that CPI, formerly known as Service Personnel, Inc., was a labor provider headquartered in Chattanooga, TN, with offices in Denver, CO, and Baton Rouge, LA. CPI specialized in providing laborers to contractors engaged in asbestos abatement. In order to provide adequate numbers of asbestos abatement workers for contractors operating in Colorado, Nebraska, Texas and elsewhere, CPI, its owners and employees knowingly hired unauthorized aliens and provided or assisted them in obtaining the documents necessary for them to work in asbestos abatement. These documents included false health certificates, Social Security



cards or numbers, asbestos training certificates and licenses. CPI employed unauthorized aliens for the purpose of hiring them out to asbestos abatement contractors throughout the U.S. without regard to whether the workers were adequately trained or physically suited to perform asbestos abatement. One of the job sites for which CPI provided unauthorized aliens to a contractor for asbestos abatement was at the Rocky Mountain Arsenal in Denver, CO. The site was raided by task force members, resulting in the arrests of several workers. Those workers, as well as numerous others arrested at several commercial sites, were returned to Mexico. Many of the workers, who were returned to Mexico, again illegally entered the U.S. and were rehired by CPI. This investigation was conducted jointly by DCIS, the EPA Criminal Investigations Division, the Immigration

and Naturalization Service, the Internal Revenue Service (IRS), the Social Security Administration OIG and the East Tennessee Environmental Crimes Task Force.



- On October 16, 2001, Olumbamidele Dada, owner of Kamila, Inc., Pasadena, CA, was sentenced in U.S. District Court, Los Angeles, CA, to 3 years probation, with 6 months home detention with electronic monitoring, and ordered to pay \$70,055.61 in restitution and a \$100 special assessment fee. On December 20, 2001, a Federal grand jury in Los Angeles, CA, indicted Dada on one count of unlawful storage of hazardous waste items that were obtained from the U.S. Government under

contract. The indictment was the result of an investigation that disclosed that Dada, owner of an import/export company, purchased lubricating oils, underwater batteries, solvents, compressed gas cylinders and various drums from the Defense Reutilization and Marketing Service. After failing in attempts to ship the items to Nigeria for sale locally, Dada abandoned the items at a storage facility in Wilmington, CA, adjacent to the Port of Los Angeles, Long Beach, CA. Due to improper storage and care, several containers leaked hazardous waste materials. Subsequently, the U.S. Coast Guard and the Los Angeles City Fire Department classified the leakage as a hazardous waste spill, necessitating a cleanup at a cost in excess of \$80,000. The investigation further disclosed that Dada had stored these hazardous waste items at a facility that did not have a permit, as required by the Resource Conservation and Recovery Act. The investigation was conducted jointly by DCIS, the EPA and the Los Angeles City Fire Department Hazardous Materials Unit.

COMPUTER CRIMES PROGRAM

DCIS is responsible for investigating incidents of unauthorized access involving the Defense Information Infrastructure (DII) in addition to the investigation of computer related crimes. DCIS consolidated computer intrusion and forensic specialties under its Computer Crimes Program to form a coordinated and efficient approach to internet and computer related crimes.

The DCIS computer intrusions personnel provide an immediate criminal investigative response to suspected computer intrusions against the DoD; develop and disseminate criminal intelligence to assist in protecting the DII; coordinate with DoD and



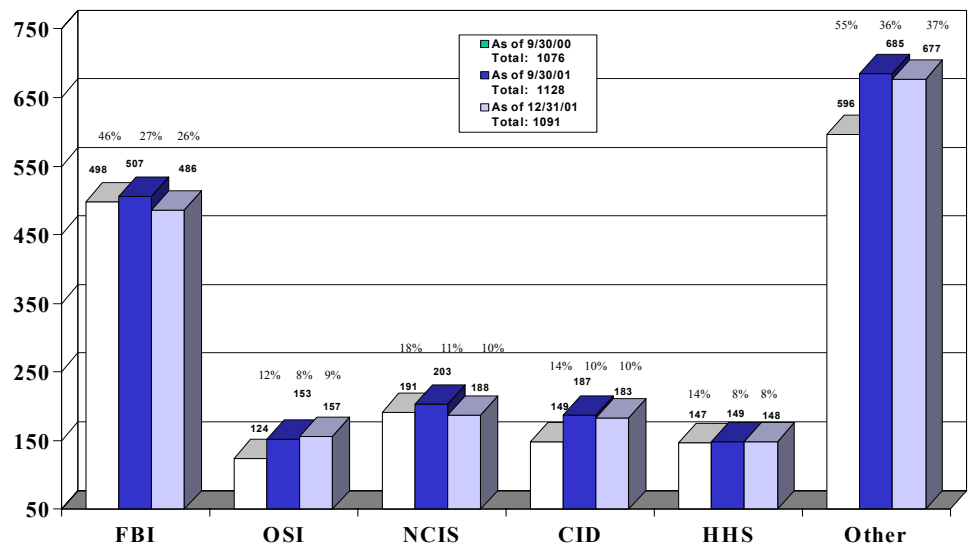
other Government agencies; and provide assistance in assessing, reporting and correcting vulnerabilities in the DII.

With regard to the forensic aspect to computer crimes, some DCIS Special Agents are trained to properly seize, protect, and analyze computer evidence. These agents, who are referred to as Seized Computer Evidence Recovery Specialists (SCERS), work closely with the primary case agent to ensure the computer searches are complete, thorough, and relevant to the matter being investigated. When needed, SCERS agents are prepared to testify as to their findings in court as experts in computer forensics.

COORDINATION OF REMEDIES

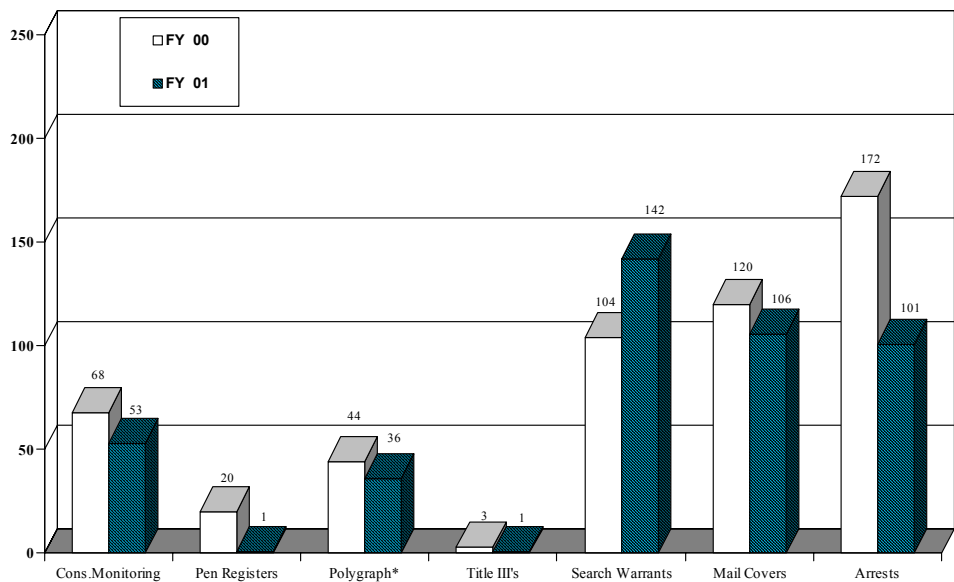
Under DoD Directive 7050.5, "Coordination of Remedies for Fraud and Corruption Related to Procurement Activities," DoD officials are responsible for the integrity of the DoD contracting and procurement system. DoD officials are required to take an immediate, coordinated approach to criminal, civil and administrative actions in combating fraud. The Directive requires that each Military Department and DoD Agency establish a central point of contact (CPOC) for the coordination of remedies in fraud and corruption cases. Information developed during significant fraud cases is shared with CPOCs within DoD Agencies and components and the Military Services. The CPOCs are provided with updates and findings on investigations to ensure coordination of remedies and initiation of suspension/debarment actions.

Open DCIS Joint Cases By Fiscal Year



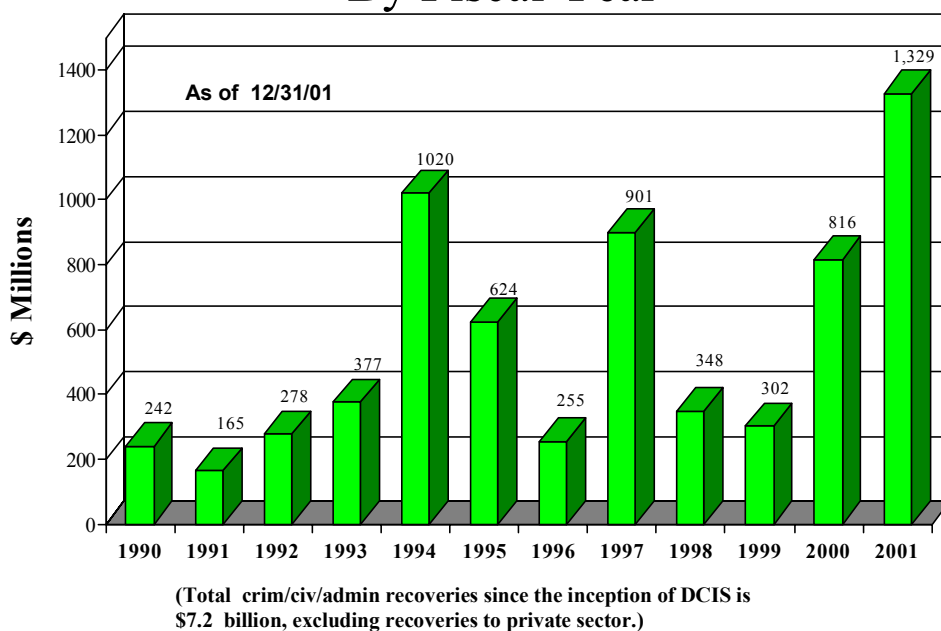
Since many joint cases involve multiple cooperating agencies, total of individual participants is greater than the number of joint investigations.

Investigative Techniques Utilized For DCIS Cases By Fiscal Year

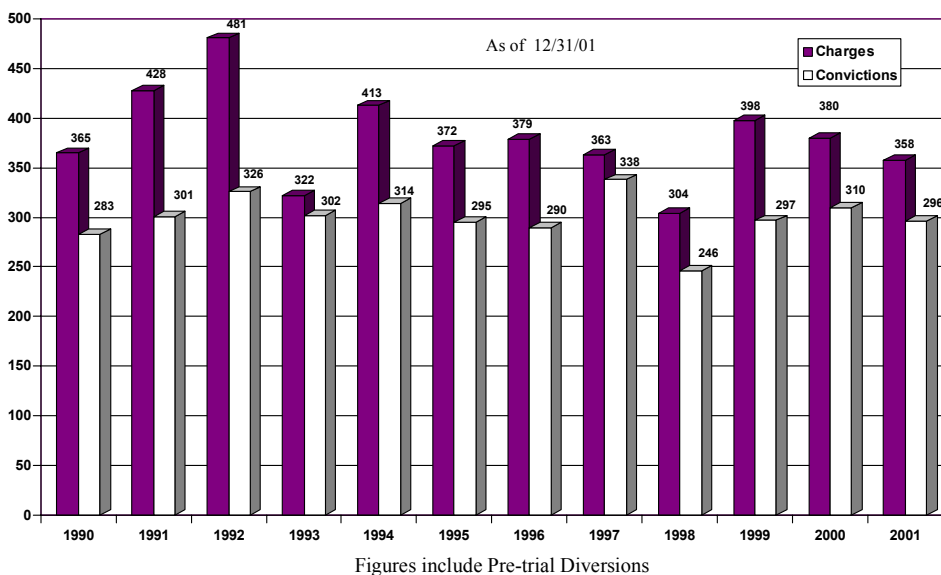


* Includes exams conducted by other agencies

Investigative Recoveries - DCIS By Fiscal Year



CRIMINAL ADJUDICATIVE ACTIONS By Fiscal Year



SEPTEMBER 11TH



Prior to September 11, 2001, the Pentagon served as the backdrop for numerous ceremonial events such as the swearing-in, promotion, award and reception area for visiting VIPs. The World Trade Center was a key attraction in the New York skyline and served as a landmark for the International Naval Review. However, on September 11, it all changed forever. DCIS responded immediately to the events of September 11

providing investigative support by conducting interviews, retrieving evidence, victim/witness support, critical incident support, staffing the task force hotline and manning various command posts.

Coordination of the 24/7 efforts at the Pentagon site were directed by the DCIS Mid-Atlantic Field Office. The DCIS New York Resident Agency coordinated similar efforts at the Ground Zero site in New York. The



DCIS Pittsburgh Post of Duty coordinated efforts at the Somerset, PA, crash site. The way we work, train and view life will never be the same.

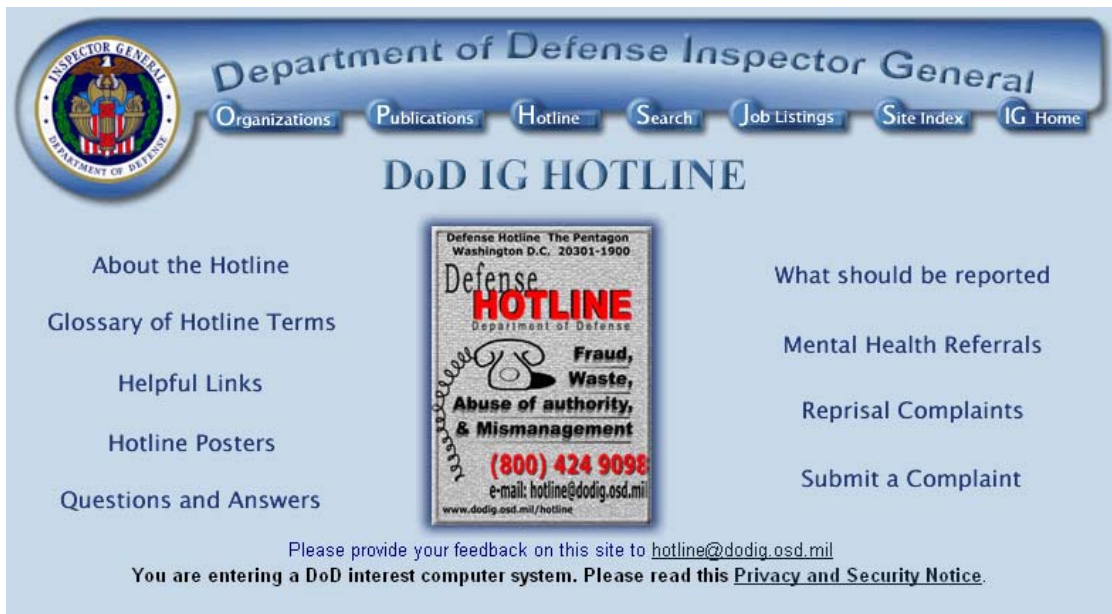


Northeast Field Office personnel at the New York work site.



Mid Atlantic Field Office and Headquarters personnel at the Pentagon work site.

DEPARTMENT OF DEFENSE HOTLINE



The DoD Hotline, a component of the DCIS, remains an important avenue whereby Service members, DoD employees, DoD contractor employees and the public can report fraud, waste and mismanagement affecting DoD programs and operations. During FY 01, the Hotline received 11,477 telephone calls and letters resulting in the initiation of 1,792 cases. During the same period, the Hotline closed 1,805 cases. The Hotline distributed Hotline posters and other Hotline informational materials to 409 DoD activities and DoD contractors in a continuing effort to promote use of the DoD Hotline.

Since 1982, over \$462 million has been recovered as a direct result of inquiries initiated in response to information provided to the Hotline. Examples of our more significant cases during FY 01 are:

- As a result of a Hotline complaint, the Assistant Inspector General for Auditing initiated an audit into an allegation that the Naval Inventory Control Point Philadelphia was maintaining obsolete items in the supply system. The audit substantiated the allegation and determined that the Navy would needlessly expend \$25,352,000 if the obsolete parts were not purged from the supply system. The Navy subsequently eliminated the parts in question from the supply system.
- A joint investigation by the DCIS and the USACIDC was initiated based upon a Hotline complaint that the Government overpaid Loral Electro-Optical Systems (Loral) on a DoD contract and Loral subsequently concealed the overpayment from Government auditors. The investigation substantiated the allegation and revealed that the same situation occurred on several DoD contracts. Five separate administrative recoveries totaling \$14,801,182 were enacted against Loral contracts for the Surface to Air Weapon

Engagement System [SAWE], Air-to-Ground Engagements Systems II [AGES II], and the ALQ-157 HELO system.

- As a result of an anonymous complaint, the DCIS initiated an investigation into allegations that Isratex, Inc., defrauded the Government by manufacturing clothing from defective cloth, presenting properly manufactured clothes for Government inspection and subsequently shipping the defective product. The investigation substantiated the allegations. The perpetrators were imprisoned and/or received probation and paid fines in the amount of \$965,000.
- A Hotline complaint resulted in a joint investigation by the DCIS and NCIS into allegations that managers at the Grumman Corporation directed their employees to mischarge labor against an E-2C aircraft support contract. The investigation substantiated the allegations. A civil settlement resulted in a recovery of \$260,000.
- The DCIS initiated an investigation based on a Hotline complaint that International Database Systems mischarged labor against a contract with the Defense Information Systems Agency. The investigation later expanded to include contracts awarded by the U.S. Army Corps of Engineers and the National Science Foundation. The investigation substantiated the allegations. The perpetrators were incarcerated and paid fines and restitutions totaling \$162,639.
- As a result of a Hotline complaint, the DCIS initiated an investigation into an allegation that Jay Automotive Specialties, Inc., defrauded the Government by not passing along discounts received from suppliers and by mischarging parts. The allegations were substantiated. A civil settlement resulted in restitution of \$140,000.
- The DCIS initiated an investigation based on a Hotline complaint that the Hughes Aircraft Company, Portsmouth, RI (subsequently purchased by Raytheon), mischarged labor on a Navy contract. The investigation substantiated the allegations and the contractor agreed to a civil settlement in the amount of \$125,000.



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